

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Casnovia	County Kent/Muskegon
Fiscal Year End June 30, 2007	Opinion Date November 13, 2007	Date Audit Report Submitted to State December 7, 2007	

We affirm that:

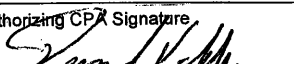
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Nothing to report	
Other (Describe)	<input checked="" type="checkbox"/>	SAS #112 communication	
Certified Public Accountant (Firm Name) Siegfried Crandall P.C.		Telephone Number (269) 381-4970	
Street Address 246 E Kilgore		City Kalamazoo	State MI
Zip 49002			
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen	License Number 1101020724

Village of Casnovia
Kent and Muskegon Counties, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended June 30, 2007

CONTENTS

	<i>Page</i>
INDEPENDENT AUDITORS' REPORT	3
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements:	
Statement of net assets	4
Statement of activities	5
Fund financial statements:	
Balance sheet - governmental funds	6
Statement of revenues, expenditures, and changes in fund balances - governmental funds	7
Statement of net assets - proprietary funds	8
Statement of revenues, expenses, and changes in net assets - proprietary funds	9
Statement of cash flows - proprietary funds	10
Notes to financial statements	11 - 18
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule:	
General Fund	19 - 20
Major Street Fund	21

INDEPENDENT AUDITORS' REPORT

Village Council
Village of Casnovia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and aggregate remaining fund information of the Village of Casnovia, Michigan, as of June 30, 2007, and for the year then ended, which collectively comprise the Village of Casnovia, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Casnovia, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Village of Casnovia, Michigan, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information, on pages 19 - 21, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village of Casnovia, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Siegfried Crandall P.C.

November 13, 2007



1958-2008

BASIC FINANCIAL STATEMENTS

Village of Casnovia
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 96,169	\$ 67,431	\$ 163,600
Receivables	<u>15,739</u>	<u>5,384</u>	<u>21,123</u>
Total current assets	111,908	72,815	184,723
Noncurrent assets - capital assets, net of depreciation	<u>311,237</u>	<u>35,964</u>	<u>347,201</u>
Total assets	<u>423,145</u>	<u>108,779</u>	<u>531,924</u>
LIABILITIES			
Current liabilities:			
Payables	5,245	1,849	7,094
Note payable	<u>7,500</u>	<u>-</u>	<u>7,500</u>
Total current liabilities	12,745	1,849	14,594
Noncurrent liability - note payable	<u>62,500</u>	<u>-</u>	<u>62,500</u>
Total liabilities	<u>75,245</u>	<u>1,849</u>	<u>77,094</u>
NET ASSETS			
Invested in capital assets	241,237	35,964	277,201
Restricted for public works	34,967	-	34,967
Unrestricted	<u>71,696</u>	<u>70,966</u>	<u>142,662</u>
Total net assets	<u>\$ 347,900</u>	<u>\$ 106,930</u>	<u>\$ 454,830</u>

See notes to the financial statements

Village of Casnovia
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating/ capital grants and contributions</u>
Governmental activities:			
Legislative	\$ 8,284	\$ -	\$ -
General government	55,681	2,575	-
Public safety	523	523	-
Public works	69,734	-	36,929
Interest on long-term debt	<u>3,642</u>	<u>-</u>	<u>-</u>
Total governmental activities	137,864	3,098	36,929
Business-type activities - sewer	<u>8,166</u>	<u>24,066</u>	<u>-</u>
Totals	<u>\$ 146,030</u>	<u>\$ 27,164</u>	<u>\$ 36,929</u>

General revenues:

Property taxes
State shared revenue
Unrestricted interest income
Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (8,284)		\$ (8,284)
(53,106)		(53,106)
-		-
(32,805)		(32,805)
<u>(3,642)</u>		<u>(3,642)</u>
(97,837)		(97,837)
<u>-</u>	<u>15,900</u>	<u>15,900</u>
<u>(97,837)</u>	<u>15,900</u>	<u>(81,937)</u>
72,569	-	72,569
27,628	-	27,628
1,768	1,834	3,602
<u>2,687</u>	<u>-</u>	<u>2,687</u>
<u>104,652</u>	<u>1,834</u>	<u>106,486</u>
6,815	17,734	24,549
<u>341,085</u>	<u>89,196</u>	<u>430,281</u>
<u>\$ 347,900</u>	<u>\$ 106,930</u>	<u>\$ 454,830</u>

See notes to the financial statements

Village of Casnovia
BALANCE SHEET - governmental funds
June 30, 2007

	<u>Major funds</u>		<u>Nonmajor fund</u>	<u>Total</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>governmental funds</u>
ASSETS				
Cash	\$ 38,054	\$ 30,949	\$ 1,082	\$ 70,085
Receivables	<u>9,893</u>	<u>5,104</u>	<u>742</u>	<u>15,739</u>
Total assets	<u>\$ 47,947</u>	<u>\$ 36,053</u>	<u>\$ 1,824</u>	<u>\$ 85,824</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 4,295	\$ 949	\$ -	\$ 5,244
Due to other funds	<u>-</u>	<u>1,569</u>	<u>392</u>	<u>1,961</u>
Total liabilities	<u>4,295</u>	<u>2,518</u>	<u>392</u>	<u>7,205</u>
Fund balances:				
Unreserved, undesignated	43,652	33,535		77,187
Unreserved, undesignated - nonmajor special revenue fund	<u>-</u>	<u>-</u>	<u>1,432</u>	<u>1,432</u>
Total fund balances	<u>43,652</u>	<u>33,535</u>	<u>1,432</u>	<u>78,619</u>
Total liabilities and fund balances	<u>\$ 47,947</u>	<u>\$ 36,053</u>	<u>\$ 1,824</u>	<u>\$ 85,824</u>
Fund balances - total governmental funds				\$ 78,619
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 4) are different because:				
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.				304,769
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				(70,000)
The internal service fund is used by management to charge the costs of equipment management to individual funds. The assets and liabilities of the internal service fund are included in <i>governmental activities</i> in the statement of net assets.				<u>34,512</u>
Net assets of <i>governmental activities</i>				<u>\$ 347,900</u>

See notes to the financial statements

Village of Casnovia
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds
Year ended June 30, 2007

	<u>Major funds</u>		<u>Non-major fund</u>	<u>Total</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>governmental funds</u>
REVENUES				
Property taxes	\$ 72,569	\$ -	\$ -	\$ 72,569
Licenses and permits	1,348	-	-	1,348
State grants	27,628	32,309	4,620	64,557
Interest and rentals	3,056	224	3	3,283
Other	2,687	-	-	2,687
Total revenues	<u>107,288</u>	<u>32,533</u>	<u>4,623</u>	<u>144,444</u>
EXPENDITURES				
Legislative	8,284	-	-	8,284
General government	48,817	-	-	48,817
Public safety	523	-	-	523
Public works	24,845	27,413	3,884	56,142
Debt Service	8,642	-	-	8,642
Total expenditures	<u>91,111</u>	<u>27,413</u>	<u>3,884</u>	<u>122,408</u>
NET CHANGE IN FUND BALANCES	16,177	5,120	739	22,036
FUND BALANCES - BEGINNING	<u>27,475</u>	<u>28,415</u>	<u>693</u>	<u>56,583</u>
FUND BALANCES - ENDING	<u>\$ 43,652</u>	<u>\$ 33,535</u>	<u>\$ 1,432</u>	<u>\$ 78,619</u>
Net change in fund balances - total governmental funds				\$ 22,036

Amounts reported for *governmental activities* in the statement of activities (page 5) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Deduct: provision for depreciation (11,973)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 5,000

The net expenses of the internal service fund are reported with governmental activities. (8,248)

Change in net assets of *governmental activities* \$ 6,815

Village of Casnovia
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2007

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Enterprise</u>	<u>Internal</u>
	<u>Sewer</u>	<u>service</u>
ASSETS		
Current assets:		
Cash	\$ 67,431	\$ 26,083
Receivables	5,384	-
Due from other funds	<u>-</u>	<u>1,961</u>
Total current assets	72,815	28,044
Noncurrent assets - capital assets, net of depreciation	<u>35,964</u>	<u>6,468</u>
Total assets	<u>108,779</u>	<u>34,512</u>
LIABILITIES		
Current liabilities - payables	<u>1,849</u>	<u>-</u>
NET ASSETS		
Invested in capital assets	35,964	6,468
Unrestricted	<u>70,966</u>	<u>28,044</u>
Total net assets	<u>\$ 106,930</u>	<u>\$ 34,512</u>

See notes to the financial statements

Village of Casnovia**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -proprietary funds**

Year ended June 30, 2007

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Enterprise</u>	<u>Internal</u>
	<u>Sewer</u>	<u>service</u>
OPERATING REVENUES		
Charges for services:		
Sewer charges	\$ 24,066	\$ -
Equipment rentals	-	6,182
	<u>24,066</u>	<u>6,182</u>
Total operating revenues	<u>24,066</u>	<u>6,182</u>
OPERATING EXPENSES		
Personal services	3,033	2,586
Contractual services	775	-
Supplies	2,431	989
Utilities	236	1,564
Repair and maintenance	-	7,847
Depreciation	<u>1,691</u>	<u>1,679</u>
	<u>8,166</u>	<u>14,665</u>
Total operating expenses	<u>8,166</u>	<u>14,665</u>
OPERATING INCOME (LOSS)	15,900	(8,483)
NONOPERATING REVENUE		
Interest income	<u>1,834</u>	<u>235</u>
CHANGE IN NET ASSETS	17,734	(8,248)
NET ASSETS - BEGINNING	<u>89,196</u>	<u>42,760</u>
NET ASSETS - ENDING	<u>\$ 106,930</u>	<u>\$ 34,512</u>

See notes to the financial statements

Village of Casnovia
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2007

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Enterprise</u>	<u>Internal</u>
	<u>Sewer</u>	<u>service</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 21,428	\$ -
Receipts from interfund services provided	-	11,105
Payments to suppliers	(1,593)	(10,400)
Payments to employees	<u>(3,033)</u>	<u>(2,586)</u>
Net cash provided by (used in) operating activities	16,802	(1,881)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,279)	(3,808)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>1,834</u>	<u>235</u>
NET INCREASE (DECREASE) IN CASH	17,357	(5,454)
CASH - BEGINNING	<u>50,074</u>	<u>31,537</u>
CASH - ENDING	<u><u>\$ 67,431</u></u>	<u><u>\$ 26,083</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 15,900	\$ (8,483)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,691	1,679
Increase in receivables	(2,638)	-
Increase in payables	1,849	-
Decrease in due from other funds	<u>-</u>	<u>4,923</u>
Net cash provided by (used in) operating activities	<u><u>\$ 16,802</u></u>	<u><u>\$ (1,881)</u></u>

See notes to the financial statements

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Casnovia, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

a) Reporting entity:

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Village. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Village exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the Village's major streets.

The Village reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the Village's sewer system.

Additionally, the Village reports an internal service fund that accounts for equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) *Measurement focus, basis of accounting, and financial statement presentation* (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund is charges to customers for services. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d) *Assets, liabilities, and net assets or equity:*

i) *Bank deposits* - Cash is considered to be cash on hand and demand deposits.

ii) *Receivables* - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

iii) *Capital assets* - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the Village as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Village has elected to account for infrastructure assets prospectively, beginning July 1, 2003.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	5 - 20 years
Vehicles	5 years
Sewer systems	10 - 40 years

iv) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

v) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before September 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Village. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth the significant budget variance:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	General government	General administration	\$ 1,500	\$ 3,813	\$ (2,313)
Major Street	Public works	Preservation	\$ 19,100	\$ 22,513	\$ (3,413)

NOTE 3 - CASH:

At June 30, 2007, cash is classified in the accompanying statement of net assets as follows:

Statement of net assets:	
Governmental activities	\$ 96,169
Business-type activities	<u>67,431</u>
Total cash	<u>\$ 163,600</u>

At June 30, 2007, cash consists entirely of deposits with a single financial institution.

Deposits with financial institutions - State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2007, \$45,732 of the Village's bank balances of \$167,103 was exposed to custodial credit risk because it was uninsured. The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At June 30, 2007, the Village's receivables are as follows:

	<u>Accounts</u>	<u>Intergovern- mental</u>	<u>Totals</u>
Governmental funds:			
General	\$ -	\$ 9,893	\$ 9,893
Major Street	-	5,104	5,104
Nonmajor	-	742	742
	<u> </u>	<u> </u>	<u> </u>
Total governmental funds	<u>\$ -</u>	<u>\$ 15,739</u>	<u>\$ 15,739</u>
Proprietary fund:			
Sewer	<u>\$ 5,384</u>	<u>\$ -</u>	<u>\$ 5,384</u>

All receivables are due within one year and are considered fully collectible.

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 386,383	\$ -	\$ -	\$ 386,383
Equipment	38,334	3,808	-	42,142
Vehicles	27,214	-	-	27,214
Streets	76,632	-	-	76,632
Subtotal	<u>528,563</u>	<u>3,808</u>	<u>-</u>	<u>532,371</u>
Less accumulated depreciation for:				
Buildings	(145,847)	(6,864)	-	(152,711)
Equipment	(33,995)	(1,679)	-	(35,674)
Vehicles	(27,214)	-	-	(27,214)
Streets	(426)	(5,109)	-	(5,535)
Subtotal	<u>(207,482)</u>	<u>(13,652)</u>	<u>-</u>	<u>(221,134)</u>
Total governmental activities capital assets, net	<u>\$ 321,081</u>	<u>\$ (9,844)</u>	<u>\$ -</u>	<u>\$ 311,237</u>
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$ 469,447	\$ -	\$ -	\$ 469,447
Buildings	31,684	-	-	31,684
Equipment	42,468	1,279	-	43,747
Subtotal	<u>543,599</u>	<u>1,279</u>	<u>-</u>	<u>544,878</u>
Less accumulated depreciation for:				
Sewer system	(440,200)	(803)	-	(441,003)
Buildings	(24,555)	(792)	-	(25,347)
Equipment	(42,468)	(96)	-	(42,564)
Subtotal	<u>(507,223)</u>	<u>(1,691)</u>	<u>-</u>	<u>(508,914)</u>
Total business-type activities capital assets, net	<u>\$ 36,376</u>	<u>\$ (412)</u>	<u>\$ -</u>	<u>\$ 35,964</u>

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to the Village's functions as follows:

Governmental activities:	
General government	\$ 6,864
Public works	5,109
Depreciation on internal service fund capital assets	<u>1,679</u>
 Total governmental activities	 <u>\$ 13,652</u>

NOTE 6 - NOTE PAYABLE:

Noncurrent liabilities at June 30, 2007, are comprised of the following individual issue:

Governmental activities:	
Note payable:	
2006 Installment purchase agreement - payable in annual installments ranging from \$5,000 to \$10,000, plus interest from 4.55% to 4.95%; final payment due June 2016.	<u>\$ 70,000</u>

Noncurrent liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Note payable	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ (5,000)</u>	<u>\$ 70,000</u>	<u>\$ 7,500</u>

Debt service requirements at June 30, 2007, were as follows:

	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
Year ended June 30:		
2008	7,500	3,185
2009	7,500	2,844
2010	7,500	2,502
2011	7,500	2,161
2012	7,500	1,820
2013 - 2016	<u>32,500</u>	<u>6,188</u>
 Totals	 <u>\$ 70,000</u>	 <u>\$ 18,700</u>

Village of Casnovia
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 2007, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
Equipment Fund	<u>\$ 1,961</u>	Major Streets	\$ 1,569
		Local Streets	<u>392</u>
		Total	<u>\$ 1,961</u>

The amounts due to the Equipment Fund represent equipment rentals that were paid in July, 2007.

NOTE 8 - RISK MANAGEMENT:

The Village is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The risks of loss arising from general liability up to \$2,000,000, property losses, workers' compensation, and employee medical costs are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 9 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2007, follows:

Revenues	\$ 128
Expenses	<u>1,037</u>
Deficiency of revenues over expenses	<u>\$ (909)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Casnovia**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 46,550	\$ 63,550	\$ 72,569	\$ 9,019
Licenses and permits	300	300	1,348	1,048
State grants	32,000	32,000	27,628	(4,372)
Interest and rentals	3,200	3,200	3,056	(144)
Other	3,324	3,324	2,687	(637)
Total revenues	<u>85,374</u>	<u>102,374</u>	<u>107,288</u>	<u>4,914</u>
EXPENDITURES				
Legislative	<u>8,500</u>	<u>9,600</u>	<u>8,284</u>	<u>1,316</u>
General government:				
Professional fees	9,500	14,500	7,895	6,605
Elections	-	100	60	40
Clerk	5,500	5,500	5,328	172
Treasurer	5,500	5,500	5,328	172
Buildings and grounds	16,500	18,300	17,588	712
Insurance	8,000	9,000	8,805	195
General administration	1,400	1,500	3,813	(2,313)
Total general government	<u>46,400</u>	<u>54,400</u>	<u>48,817</u>	<u>5,583</u>
Public safety - fire protection	<u>1,000</u>	<u>1,000</u>	<u>523</u>	<u>477</u>
Public works:				
Engineering	10,000	10,500	7,219	3,281
Street lighting	6,000	6,600	6,604	(4)
Sanitation	12,000	13,000	11,022	1,978
Total public works	<u>28,000</u>	<u>30,100</u>	<u>24,845</u>	<u>5,255</u>
Debt service				
Principal	-	5,000	5,000	-
Interest	-	3,700	3,642	58
Total debt service	<u>-</u>	<u>8,700</u>	<u>8,642</u>	<u>58</u>
Total expenditures	<u>83,900</u>	<u>103,800</u>	<u>91,111</u>	<u>12,689</u>

Village of Casnovia**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
NET CHANGE IN FUND BALANCES	\$ 1,474	\$ (1,426)	\$ 16,177	\$ 17,603
FUND BALANCES - BEGINNING	<u>27,475</u>	<u>27,475</u>	<u>27,475</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 28,949</u>	<u>\$ 26,049</u>	<u>\$ 43,652</u>	<u>\$ 17,603</u>

Village of Casnovia**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 32,000	\$ 32,000	\$ 32,309	\$ 309
Interest income	<u>100</u>	<u>100</u>	<u>224</u>	<u>124</u>
Total revenues	<u>32,100</u>	<u>32,100</u>	<u>32,533</u>	<u>433</u>
EXPENDITURES				
Public works:				
Preservation	18,000	19,100	22,513	(3,413)
Traffic services	2,000	2,000	19	1,981
Winter maintenance	9,500	9,900	3,549	6,351
Administration	<u>1,500</u>	<u>1,500</u>	<u>1,332</u>	<u>168</u>
Total expenditures	<u>31,000</u>	<u>32,500</u>	<u>27,413</u>	<u>5,087</u>
NET CHANGE IN FUND BALANCES	1,100	(400)	5,120	5,520
FUND BALANCES - BEGINNING	<u>28,415</u>	<u>28,415</u>	<u>28,415</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 29,515</u>	<u>\$ 28,015</u>	<u>\$ 33,535</u>	<u>\$ 5,520</u>

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Village Council Village of Casnovia

In planning and performing our audit of the financial statements of the Village of Casnovia, Michigan, as of and for the year ended June 30, 2007, in accordance with U.S. generally accepted auditing standards, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they had been implemented, but it did not include procedures to test the operating effectiveness of controls, and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be significant deficiencies and deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Village's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. We believe that the following deficiency constitutes a material weakness.



1958-2008

- Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record receivables and payables, changes in capital assets and related debt, and to develop appropriate footnote disclosures were not in place. As in prior years, the Village has relied upon our firm as auditor to identify and develop material adjustments necessary to convert cash basis financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Village's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. We recommend that management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting financial statement preparation services with its auditor.

This report is intended solely for the information and use of the Village Council, others within the Village, and the Department of Treasury of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.

November 13, 2007